IMF inFocus

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10 Events That Shaped the IMF

De Rato Takes Pulse of Global Membership

A Guide to the Inner Workings of the Fund

IMF in Focus

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PROFILE OF NEW IMF CHIEF RODRIGO DE RATO Y FIGAREDO

Taking the Pulse of a Global Membership

Before his selection as Managing Director of the International Monetary Fund, Rodrigo de Rato once said it was a job that was impossible to do well. Asked by a U.S. television network if he still believed that now that he had the job, he replied with a grin: "Well, I'll tell you if I was wrong or right five years from now!"

The first Spanish national to serve as Managing Director of the IMF, de Rato takes over the IMF at an important juncture. After a decade of financial crises that have hit Asia, Latin America, Russia, and Turkey, the institution is faced with the job of helping to bolster the international financial system and encourage countries to pursue healthy growth patterns that will enable them to reduce poverty and boost standards of living—a daunting task made all the more difficult by heightened security concerns in many parts of the world.

De Rato enters this arena as an experienced politician and policymaker, who helped transform Spain's economy into one of the most successful in Europe. The IMF's ninth chief in its 60-year history, he took over on June 7, 2004, from Horst Köhler, who had resigned earlier in the year in anticipation of his nomination for the position of President of Germany, to which he was elected in May.

During de Rato's first months as IMF Managing Director, he traveled extensively in Africa, Asia, Europe, and Latin America to take the pulse of the global economy and to sound out governments and civil society about their priorities and concerns—in essence, to listen and

De Rato visits an elementary school in Uganda.

learn rather than to preach. This effort was appreciated by country leaders. As Malawi's President Bingu Wa Mutharika told reporters after a visit, "We've found the new Managing Director very receptive, very responsive, but also sympathetic to the problems we have."

De Rato stressed during his visits to Africa that he was ready to stand up for the less developed countries, particularly on trade liberalization and removal of farm subsidies in the industrialized world. "This is a critical opportunity to make a significant advance in multilateral trade liberalization that will truly benefit the poorest countries. Rest assured that in this area, the IMF will continue to be your advocate," he told an African regional summit in Entebbe, Uganda. He also promised that "the IMF will ensure that its programs and policy advice are supportive of higher levels of aid, including for the fight against HIV/AIDS and for strengthening much-needed public infrastructure"—a response to critics who argue that the IMF is imposing fiscal austerity on poor countries instead of helping them find additional resources to meet the Millennium Development Goals by 2015.

At the same time, however, de Rato emphasized that development had to be earned through good policies. **"Those countries that have pursued sound macroeconomic and governance policies are growing much faster than those unwilling to undertake reform or those affected by conflict," he said.**

As for criticisms of large IMF loans to such emerging market countries as Brazil, Korea, and Turkey, de Rato told a Madrid conference in June on the 60th anniversary of the Bretton Woods Institutions that "some large IMF-supported programs raise concerns because they appear to suggest that a country's geopolitical importance or other factors play a role in IMF decisions." But while such loans draw a lot of attention, he said, "the IMF has also given major support to countries whose situation does not pose systemic risks or which may not rank high on the geopolitical agenda of our large shareholders."

He stressed that the IMF's lending decisions must embody the principle of uniformity of treatment. In most cases, the normal access limits that apply to IMF loans are sufficient, but in some rare cases, "exceptionally large access to IMF resources can be necessary to guard against

"The IMF will ensure that its programs and policy advice are supportive of higher levels of aid, including for the fight against HIV/AIDS and for strengthening much-needed public infrastructure."

risks to the global financial system." Does that mean always agreeing to loans when countries are in dire straits? De Rato believes that the Fund should be more selective and predictable. The prospect of the Fund declining to provide financial support would help strengthen the incentives for implementing sound policies, thus avoiding the need for IMF support in the first place.

Widely credited as the architect of Spain's economic transformation in recent years, de Rato, who holds a law degree, a master's in business administration, and a doctorate in economics, comes to the IMF after an accomplished political career in which he served more than two decades in the Spanish parliament. From April 2000 to March 2004, he was Spain's Minister of Economy and Vice President of the Government for Economic Affairs, and from May 1996 to April 2000, he served as Minister of Economy and Finance.

De Rato is not the first finance minister to serve as the IMF's Managing Director. Its first head, Camille Gutt (1946–51), and its fifth, H. Johannes Witteveen (1973–81), had been finance ministers in their respective home countries (Belgium and the Netherlands). But de Rato's political savvy was clearly regarded as an asset in his selection.

"As a former finance minister, he directed substantial economic progress in Spain and has an excellent understanding of the realities of economic policymaking," said U.S. Treasury Secretary John Snow after the IMF announced his appointment.

De Rato, who was born on March 18, 1949, worked in family businesses ranging from construction to broadcasting before going into politics in 1979. He has an intimate knowledge of Latin America, where Spain has close business ties rooted in a common language and culture.

He has been an outspoken advocate of a growth and stability pact in the European Union (EU), which calls on governments to limit their budget deficits. Under his guidance, Spain implemented an economic program providing for fiscal consolidation, privatization, tax reform, and some liberalization of labor markets and traditionally monopolistic sectors, accompanied by a cautious monetary policy, which was instrumental in underpinning macroeconomic stability. This policy stance succeeded in erasing the deficits that had been a fixture of Spanish governments and enabled Spain to meet tough conditions for qualifying as a founding member of Europe's single currency, the euro.

During de Rato's tenure as economy minister, Spain posted eight consecutive years of growth—consistently above the EU average. When growth by larger economies sputtered, Spain's economy continued to expand. "He has been the best Finance Minister in contemporary Spanish history," Gregorio Izquierdo, head of research at the Institute for Economic Studies, a Madrid think tank, was quoted by the Associated Press as saying.

De Rato's connection to the international financial community isn't new. As Minister of Economy, de Rato served as a member of the Boards of Governors of the IMF, the World Bank, the Inter-American Development Bank, the European Investment Bank, and the European Bank for Reconstruction and Development. He also regularly attended the EU's Economic and Finance Ministers' meetings and represented the EU at the Group of Seven Finance Ministers' meeting in Ottawa, Canada, in 2002, when Spain held the EU presidency. He also represented Spain at the World Trade Organization's ministerial meetings in Doha, Qatar, in 2001, and in Cancún, Mexico, in 2003.❖

JAMES BOUGHTON

10 Events That Shaped the IMF

The International Monetary Fund (IMF, or the Fund) was created toward the end of the Second World War as part of an attempt to build a new, more stable international economic system and avoid the costly mistakes of the previous decades. Over the past 60 years, it has continued to change and adapt. But since its inception, it has been shaped by history and molded by the economic and political ideas of the time.

American troops land in Normandy on D-Day, 1944.

When delegations from 44 countries met at Bretton Woods, New Hampshire, in July 1944 to establish institutions to govern international economic relations in the aftermath of the Second World War, avoiding a repeat of the failings of the Paris peace conference that had ended the First World War was very much on their minds. Creation of an International Bank for Reconstruction and Development would help restore economic activity, while creation of an International Monetary Fund would help restore currency convertibility and multilateral trade. For both John Maynard Keynes, the economist who headed the British delegation, and Harry Dexter White, the chief drafter of the IMF charter for the U.S. delegation, the motivating principle for creating the IMF was to engender postwar economic growth by establishing an institution that would prevent a relapse into autarky and protectionism, not just to avoid a recurrence of the Great Depression.

This article looks at some of the key 20th-century events that had the greatest influence on the IMF and draws some general conclusions about the force of history on the international monetary system that now prevails.

1. The Paris Peace Conference

The Paris conference of 1918 did consider a blueprint for restoring prosperity and world peace, in the form of U.S. President Woodrow Wilson's 14 Points. But six months later, when delegates agreed on the terms of what became known as the Treaty of Versailles, key parts of the blueprint had been cast aside. Within a decade, prosperity was lost. In another decade, peace was gone as well. The most famous failure was Wilson's inability to convince the U.S. Senate to confirm the country's membership in the League of Nations. The most disastrous, however, was arguably the failure to lay the groundwork for economic cooperation among the world's great trading nations.

2. The Great Depression

The Great Depression that began in 1929 amplified the negative consequences of Versailles, as an implosion of international trade interacted with domestic policy errors to deflate both output and prices around the world. It severely tested the confidence of analysts and voters in the efficacy of free markets and strengthened belief in an activist role for the public sector in economic life. It thus became easier and more natural to start discussions on a post–World War II framework from the assumption that an intergovernmental agency with substantive powers would be beneficial and even essential for the international financial system.

10 Events

3. World War II

The Second World War provided both the impetus and the context for reforming the international system. When the United States entered the war in response to the bombing of Pearl Harbor in December 1941, Treasury Secretary Henry Morgenthau, Jr., put White in charge of international economic and financial policy and asked him to come up with a plan for remaking the system once the war was over. As it happened, White had already sketched out a rough plan for an international stabilization fund, and he was able to produce a first draft within a couple of months. On the other side of the Atlantic, Keynes was developing a plan for an international clearing union to be run jointly by Britain and the United States as "founder states." Though less overtly multilateral than White's scheme, and based on the British overdraft system rather than on White's rather complicated proposal for currency swaps, Keynes's scheme was similar in its essence to White's. Over the next two years of discussion and negotiation, the two plans would meld into a draft for the IMF charter.

One major consequence of the war was that it left the United States in virtual control of the world economy. The financial structure of the IMF would thus be based on the U.S. dollar, rather than on an international currency of its own making. Its lending power would be limited, and the Fund would lack most of the powers of a central bank. Its headquarters would be neither in London nor even in New York, but in Washington, where the U.S. Treasury could exert a strong gravitational pull. For the next three decades, the IMF would be essentially a dollar-centric institution, with the United States providing most of its loanable resources and effectively controlling most of its lending decisions.

4. The Cold War

Harry Dexter White had worked hard in 1944 to persuade the Soviet Union to join the IMF, in the belief that economic cooperation between the Soviet Union and the United States would be the key to postwar peace and prosperity. The Soviet delegation to Bretton Woods did sign the Articles *ad referendum*, but Joseph Stalin eventually refused to ratify the agreement, apparently because he feared (not without justification) that Fund policies would be largely controlled by the West. When that tension segued into the Cold War, White's vision of universal membership was dashed. Poland withdrew from membership in 1950. Four years later, Czechoslovakia was forced to withdraw. Shortly after taking power in 1959, Fidel Castro pulled Cuba out. For more than three decades after Mao Zedong took control of China, the U.S. government blocked efforts by the People's Republic to be seated as China's representative on the IMF Executive Board. Most other countries in the Soviet or Chinese spheres of influence simply did not join.

The fall of the Berlin Wall in 1989 heralded the end of the Cold War.

Not until the 1980s would the trend be reversed, with the seating of China and renewed membership for Poland.

The obvious effect of the Cold War on the IMF was this limitation on membership. In the terminology of the period, the IMF included the first world and much of the third, but the second was absent from the table. The IMF became largely a capitalist club that helped stabilize market-oriented economies.

5. *African independence*

Only 3 of the IMF's 40 original members were in Africa: Egypt, Ethiopia, and South Africa. Of those, one was more closely affined to the Middle East, and one was minority controlled and more culturally linked to Europe. Most of the continent was still under colonial rule. That situation began to evolve in 1957, when the newly independent countries of Ghana and Sudan became IMF members. Applications then flooded in, and by 1969, 44 of the IMF's 115 members were in Africa. By 1990, all of Africa's 53 countries were in the IMF. They comprised nearly one-third of the member countries, though their average small size and mostly low incomes meant that they controlled less than 9 percent of the voting power and held only 3 of the 22 seats on the Executive Board.

The emergence of Africa as a continent of independent nations had a major effect on the size and diversity of the IMF, and it required a substantial intensification of the Fund's involvement with and oversight of its borrowers. Most of these countries, especially in sub-Saharan Africa, had very low per capita incomes and were among the least economically developed countries in the world—a picture that still holds. Their economic problems tend to be structural even more than macroeconomic; rooted in the need for improvements in education, health care, infrastructure, and governance rather than finance; and more deeply ingrained and persistent than in other regions. Solving these problems requires lending on concessional terms and a wide range of technical expertise. Consequently, the IMF's role has expanded beyond its original boundaries, and close collaboration with the World Bank and other development agencies has become imperative.

10 Events

6. *Rise of multiple economic centers*

As the world economy—and world trade—began to recover after the Second World War, U.S. economic hegemony gradually eroded. The first to rise from the ashes was Western Europe. Through a combination of national drive, international support—from the U.S. Marshall Plan, the World Bank, and, eventually, the IMF—and a homegrown multilateralism in the form of the Common Market and the European Payments Union, much of Europe was growing rapidly and was increasingly open to multilateral trade and currency exchange by the late 1950s. The Federal Republic of Germany joined the IMF in 1952 and quickly became one of the world's leading economies. Next came Asia. Japan also joined the Fund in 1952 and, by the 1960s, it was on its way to joining the United States and Germany on the top rung of the economic ladder. Then the 1970s saw the rise of economic power in Saudi Arabia and other oil-exporting countries of the Middle East. In 30 years, the U.S. share of world exports fell from 22 percent to 12 percent, while its share of official international reserves dropped even more dramatically, from 54 percent in 1948 to 12 percent in 1978.

As the balance of economic and financial power became more widely dispersed, more and more currencies became fully convertible for current account and even capital transactions. Trading partners grew at different rates and with different mixes of financial policies. Pressures on fixed exchange rates and on the limited supply of gold and U.S. dollars became increasingly frequent and more severe. The IMF responded in 1969 by amending its Articles and creating Special Drawing Rights (SDRs) to supplement existing reserve assets, but that action was too limited to deal with the underlying problem of differential pressures. As a result, even before the first oil shock in 1973, the original Bretton Woods system of fixed but adjustable exchange rates had become unviable.

7. The Vietnam War

The intensification of U.S. involvement in the Vietnam War in the 1960s and early 1970s would not by itself have had substantial effects on the IMF, other than the direct effect on Vietnam's membership. When the government of South Vietnam was about to fall in April 1975, its officials tried desperately to borrow as much as they could from the IMF. The IMF refused to go along, and, within a few months, it recognized the Socialist Republic of Viet Nam as the successor government. The larger effect, however, was on the U.S. economy and its external payments position. In combination with a sizable increase in domestic spending on President Lyndon Johnson's Great Society programs, the rise in external military spending gradually worsened the overvaluation of the U.S. dollar under the Bretton Woods system of fixed exchange rates. In a series of spasms, the system dissolved between 1968 and 1973. With the dollar no longer convertible into gold, the precious metal could no longer serve a central or even a useful function in the international monetary system. The Vietnam War was by no means the sole culprit in this decline, but its catalytic role was certainly substantial.

A couple walk past an electronic display of stock prices in Tokyo.

8. Globalization of financial markets

Private sector financial flows were of limited scope and importance when the IMF was founded. Trade flows were financed largely by trade credits, and most economists considered cross-border portfolio flows to be as much a potential destabilizing nuisance as a potential source of investment capital.

The range and importance of capital flows began to increase in the 1950s as European countries gradually reestablished convertibility. The first big increase, however, came in the 1970s, with the emergence of the Eurodollar and other offshore financial markets. It was driven further by the accumulation of "petrodollars" by oil-exporting countries in the 1970s and the recycling of those assets to oil-importing sovereign borrowers through large international banks. By the 1990s, cross-border flows had become an essential source of finance for both industrial and emerging market economies around the world, and the structure of international financial markets had become so complex that their size could no longer be measured, much less controlled.

One effect of financial globalization was that IMF financing became quantitatively marginalized for many potential borrowers. In the early days of the IMF, countries facing a financing gap in their balance of payments could often close it solely by borrowing from the Fund. By the 1980s, their object was more often to "catalyze" other capital inflows by borrowing relatively small amounts from the Fund to support an agreed package of policy reforms and thereby hoping to convince other creditors that the country was a good prospect. What mattered was not so much the quantity of money as the quality of the reforms. Globalization thus fundamentally altered the relationship between the IMF and its borrowing members and between the IMF and other official and private creditors.

Another effect was to weaken the "credit union" character of the IMF as a membership institution because, by the 1980s, the more advanced economies were able to finance their external payments with private flows and did not need

"The evolution of the IMF has been driven by—and necessitated by—shifts in world economic and political conditions."

to borrow from the IMF. The membership of the IMF became divided into persistent creditor and debtor groups.

9. International debt crisis

In August 1982, a gradual two-year worsening of conditions in international debt markets suddenly accelerated and precipitated a major economic and financial crisis. A scattering of countries, including Hungary, Morocco, Poland, and Yugoslavia, had already seen their bank creditors turn their backs in 1981 and the first half of 1982. When the banks suddenly pulled out of Mexico, the crisis took on systemic proportions. Within a few months, Argentina, Brazil, and Chile were also in trouble, and the crisis was continuing to spread. Not until 1990, when world interest rates were settling down and the bank debts of the most heavily indebted developing countries were being replaced by Brady Bonds, would it be possible to declare the crisis over. The debt crisis transformed the IMF, catapulting it into the role of international crisis manager.

10 Events

10. Collapse of communism

The fall of the Berlin Wall in 1989 and the dissolution of the Soviet Union in 1991 enabled the IMF at last to become a nearly universal institution. In three years, membership increased from 152 countries to 172, the most rapid increase since the influx of African members in the 1960s. (The IMF now has 184 members.) Many of the new members needed to borrow from the Fund, and almost all of them needed technical assistance and regular consultations. Consequently, the size of the IMF staff increased by nearly 30 percent in six years. The Executive Board expanded from 22 seats to 24 to accommodate Directors from Russia and Switzerland, and some existing Directors saw their constituencies expand by several countries.

Conclusions

The world economy and the IMF have changed greatly in the six decades since Bretton Woods. Much of the volume of IMF lending has become crisis-driven, and the Fund's involvement in crisis prevention and resolution has correspondingly intensified. It effectively remains divided into groups of creditor and debtor countries whose membership changes little over long periods of time. Its membership is much larger, more diverse, and nearly universal, and its responsibilities in global economic governance have correspondingly increased. The breadth of its involvement in policymaking in member countries, especially borrowing countries, has vastly expanded.

The evolution of the IMF has been driven by—and necessitated by—shifts in world economic and political conditions. If the events chronicled here had not affected the IMF along these lines, the institution would have become marginalized and even irrelevant. The challenge for the IMF has always been to hold onto its vital center (the original narrow mandate to promote orderly payments adjustment and global financial stability) while adapting its activities to new circumstances and new ideas.

Keynes and White created the IMF because they believed that the world needed an official institution to promote multilateral cooperation in place of autarkic economic policies and to compensate for the inherent limitations of private markets. As much as the world and the institution have changed, those goals remain at the core of the rationale for the role of the IMF. ❖

James Boughton is an Assistant Director in the IMF's Policy Development and Review Department and the official historian of the Fund.

Running the IMF

Although the IMF is a specialized agency of the United Nations and participates in the Economic and Social Council of the UN, it operates independently and has its own charter, governing structure, rules, and finances.

The IMF currently has 184 member countries, 7 fewer than the United Nations. The difference is accounted for by Cuba, North Korea, and 5 very small countries: Andorra, Liechtenstein, and Monaco in Europe, and the island countries of Nauru and Tuvalu in the Pacific Ocean. Cuba was an original member of the IMF but withdrew in 1964; none of the other six countries has applied for membership. To become a member, a country must apply and then be accepted by a majority of the existing members.

Political oversight of the IMF is primarily the responsibility of the **International Monetary and Financial Committee** (IMFC), whose 24 members are finance ministers or central bank governors from the same countries and constituencies that are represented on the Executive Board (see organization chart, page 33). The IMFC meets twice a year and advises the Fund on the broad direction of policies. Most IMFC members are also members of the **Board of Governors,** on which every member country has a Governor. The Board of Governors meets once a year and votes on major institutional decisions such as whether to increase the Fund's financial resources or admit new members. A **Development Committee,** which, like the IMFC, also has 24 members of ministerial rank, advises the Board of Governors of the IMF and the World Bank about issues facing developing countries. It meets twice a year.

The head of the institution is the **Managing Director,** who is selected by the Executive Board (which he chairs) to serve a five-year term. The Managing Director has always been European. The **Executive Board,** which sets policies and is responsible for most decisions, consists of 24 Executive Directors. The five countries with the largest quotas (see below) in the Fund—the United States, Japan, Germany, France, and the United Kingdom—appoint Directors. Three other countries—China, Russia, and Saudi Arabia—have large enough quotas to elect their own Executive Directors. The other 176 countries are organized into 16 **constituencies,** each of which elects an Executive Director. Constituencies are formed by countries with similar interests and usually from the same region, such as French-speaking countries in Africa (see table on next page).

The IMF has around 2,700 **staff** from more than 140 countries, most of whom work at the IMF's headquarters in Washington, DC. A small number of staff work at regional or local offices around the globe. The IMF staff is organized mainly into departments with regional (or area), functional, information and liaison, and support responsibilities (see organization chart, page 33). These departments are headed by directors who report to the Managing Director. The staff track economic developments around the world and in individual countries and conduct the analysis of economic developments and policies that forms a basis for the IMF's operational work of policy advice and lending.

Where does the IMF get its money?

The IMF is a financial cooperative, in some ways like a credit union. On joining, each member country pays in a subscription, called its "**quota.**" A country's quota is broadly determined by its economic position relative to other members and takes into account the size of members' GDP, current account transactions, and official reserves. Quotas determine members' capital subscriptions to the IMF and the limits on how much they can borrow. Quotas also help determine members' voting power.

The combined capital subscriptions of the IMF's members form a pool of resources, which the IMF uses to provide temporary help to countries experiencing financial difficulties. These resources allow the IMF to provide balance of payments financing

Country representation and votes on IMF Executive Board (as of September 7, 2004)[1]

The Executive Board comprises 24 Directors who represent individual countries or groups of countries. Each Director's name appears in boldface, and the Alternate Director's name appears in italics. The voting power of each country is shown in parentheses. For each constituency, total votes and voting power appear below the list of countries. Totals may not add because of rounding.

Nancy P. Jacklin
Meg Lundsager
United States
371,743 votes **(17.14%)**

Shigeo Kashiwagi
Michio Kitahara
Japan
133,378 votes **(6.15%)**

Karlheinz Bischofberger
Gert Meissner
Germany
130,332 votes **(6.01%)**

Pierre Duquesne
Sébastien Boitreaud
France
107,635 votes **(4.96%)**

Thomas W. Scholar
Andrew Hauser
United Kingdom
107,635 votes **(4.96%)**

Willy Kiekens (Belgium)
Johann Prader (Austria)

Austria	(0.87%)
Belarus	(0.19%)
Belgium	(2.13%)
Czech Republic	(0.39%)
Hungary	(0.49%)
Kazakhstan	(0.18%)
Luxembourg	(0.14%)
Slovak Republic	(0.18%)
Slovenia	(0.12%)
Turkey	(0.46%)
111,696 votes	**(5.15%)**

Jeroen Kremers (Netherlands)
Yuriy G. Yakusha (Ukraine)

Armenia	(0.05%)
Bosnia and Herzegovina	(0.09%)
Bulgaria	(0.31%)
Croatia	(0.18%)
Cyprus	(0.08%)
Georgia	(0.08%)
Israel	(0.44%)
Macedonia, FYR of	(0.04%)
Moldova	(0.07%)
Netherlands	(2.39%)
Romania	(0.49%)
Ukraine	(0.64%)
105,412 votes	**(4.86%)**

Luis Martí (Spain)
Moisés J. Schwartz (Mexico)

Costa Rica	(0.09%)
El Salvador	(0.09%)
Guatemala	(0.11%)
Honduras	(0.07%)
Mexico	(1.20%)
Nicaragua	(0.07%)
Spain	(1.42%)
Venezuela, República Bolivariana de	(1.24%)
92,989 votes	**(4.29%)**

Pier Carlo Padoan (Italy)
Miranda Xafa (Greece)

Albania	(0.03%)
Greece	(0.39%)
Italy	(3.26%)
Malta	(0.06%)
Portugal	(0.41%)
San Marino	(0.02%)
Timor-Leste	(0.02%)
90,968 votes	**(4.19%)**

Ian E. Bennett (Canada)
Charles X. O'Loghlin (Ireland)

Antigua and Barbuda	(0.02%)
Bahamas, The	(0.07%)
Barbados	(0.04%)
Belize	(0.02%)
Canada	(2.95%)
Dominica	(0.02%)
Grenada	(0.02%)
Ireland	(0.40%)
Jamaica	(0.14%)
St. Kitts and Nevis	(0.02%)
St. Lucia	(0.02%)
St. Vincent and the Grenadines	(0.02%)
80,636 votes	**(3.72%)**

Jon A. Solheim (Norway)
Benny Andersen (Denmark)

Denmark	(0.77%)
Estonia	(0.04%)
Finland	(0.59%)
Iceland	(0.07%)
Latvia	(0.07%)
Lithuania	(0.08%)
Norway	(0.78%)
Sweden	(1.12%)
76,276 votes	**(3.52%)**

Michael J. Callaghan (Australia)
Michael H. Reddell (New Zealand)

Australia	(1.50%)
Kiribati	(0.01%)
Korea	(0.76%)
Marshall Islands	(0.01%)
Micronesia, Fed. States of	(0.01%)
Mongolia	(0.04%)
New Zealand	(0.42%)
Palau	(0.01%)
Papua New Guinea	(0.07%)
Philippines	(0.42%)
Samoa	(0.02%)
Seychelles	(0.02%)
Solomon Islands	(0.02%)
Vanuatu	(0.02%)
72,423 votes	**(3.34%)**

Sulaiman M. Al-Turki
Abdallah S. Alazzaz
Saudi Arabia
70,105 votes **(3.23%)**

Sri Mulyani Indrawati (Indonesia)
Ismail Alowi (Malaysia)

Brunei Darussalam	(0.11%)
Cambodia	(0.05%)
Fiji	(0.04%)
Indonesia	(0.97%)
Lao PDR	(0.04%)
Malaysia	(0.70%)
Myanmar	(0.13%)
Nepal	(0.04%)
Singapore	(0.41%)
Thailand	(0.51%)
Tonga	(0.01%)
Vietnam	(0.16%)
69,019 votes	**(3.18%)**

Ismaila Usman (Nigeria)
Peter J. Ngumbullu (Tanzania)

Angola	(0.14%)
Botswana	(0.04%)
Burundi	(0.05%)
Eritrea	(0.02%)
Ethiopia	(0.07%)
Gambia, The	(0.03%)
Kenya	(0.14%)
Lesotho	(0.03%)
Malawi	(0.04%)
Mozambique	(0.06%)
Namibia	(0.07%)
Nigeria	(0.82%)
Sierra Leone	(0.06%)
South Africa	(0.87%)
Sudan	(0.09%)
Swaziland	(0.03%)
Tanzania	(0.10%)
Uganda	(0.09%)
Zambia	(0.24%)
65,221 votes	**(3.01%)**

A. Shakour Shaalan (Egypt)
Oussama T. Kanaan (Jordan)

Bahrain	(0.07%)
Egypt	(0.45%)
Iraq	(0.24%)
Jordan	(0.09%)
Kuwait	(0.65%)
Lebanon	(0.11%)
Libyan Arab Jamahiriya	(0.53%)
Maldives	(0.02%)
Oman	(0.10%)
Qatar	(0.13%)
Syrian Arab Republic	(0.15%)
United Arab Emirates	(0.29%)
Yemen, Republic of	(0.12%)
64,008 votes	**(2.95%)**

Wang Xiaoyi
GE Huayong
China
63,942 votes **(2.95%)**

Fritz Zurbrügg (Switzerland)
Andrzej Raczko (Poland)

Azerbaijan	(0.09%)
Kyrgyz Republic	(0.05%)
Poland	(0.64%)
Serbia and Montenegro	(0.23%)
Switzerland	(1.61%)
Tajikistan	(0.05%)
Turkmenistan	(0.05%)
Uzbekistan	(0.14%)
61,827 votes	**(2.85%)**

Aleksei V. Mozhin
Andrei Lushin
Russian Federation
59,704 votes **(2.75%)**

Abbas Mirakhor (Islamic Republic of Iran)
Mohammed Daïri (Morocco)

Afghanistan, Islamic State of	(0.09%)
Algeria	(0.59%)
Ghana	(0.18%)
Iran, Islamic Rep. of	(0.70%)
Morocco	(0.28%)
Pakistan	(0.49%)
Tunisia	(0.14%)
53,662 votes	**(2.47%)**

Murilo Portugal (Brazil)
Roberto Steiner (Colombia)

Brazil	(1.41%)
Colombia	(0.37%)
Dominican Republic	(0.11%)
Ecuador	(0.15%)
Guyana	(0.05%)
Haiti	(0.05%)
Panama	(0.11%)
Suriname	(0.05%)
Trinidad and Tobago	(0.17%)
53,634 votes	**(2.47%)**

B.P. Misra (India)
R.A. Jayatissa (Sri Lanka)

Bangladesh	(0.26%)
Bhutan	(0.01%)
India	(1.93%)
Sri Lanka	(0.20%)
52,112 votes	**(2.40%)**

Guillermo Le Fort (Chile)
Héctor R. Torres (Argentina)

Argentina	(0.99%)
Bolivia	(0.09%)
Chile	(0.41%)
Paraguay	(0.06%)
Peru	(0.31%)
Uruguay	(0.15%)
43,395 votes	**(2.00%)**

Damian Ondo Mañe (Equatorial Guinea)
Laurean W. Rutayisire (Rwanda)

Benin	(0.04%)
Burkina Faso	(0.04%)
Cameroon	(0.10%)
Cape Verde	(0.02%)
Central African Republic	(0.04%)
Chad	(0.04%)
Comoros	(0.02%)
Congo, Dem. Rep. of	(0.26%)
Congo, Rep. of	(0.05%)
Côte d'Ivoire	(0.16%)
Djibouti	(0.02%)
Equatorial Guinea	(0.03%)
Gabon	(0.08%)
Guinea	(0.06%)
Guinea-Bissau	(0.02%)
Madagascar	(0.07%)
Mali	(0.05%)
Mauritania	(0.04%)
Mauritius	(0.06%)
Niger	(0.04%)
Rwanda	(0.05%)
São Tomé and Príncipe	(0.01%)
Senegal	(0.09%)
Togo	(0.05%)
30,749 votes	**(1.42%)**

[1]Does not include the votes of Liberia, Somalia, or Zimbabwe; their representation has been suspended because of protracted arrears to the IMF.

to support members implementing economic adjustment and reform programs.

At regular intervals of not more than five years, the IMF's Executive Board reviews members' quotas and decides—in light of developments in the global economy and changes in members' economic positions relative to other members—whether to propose an adjustment of their quotas to the Board of Governors.

Countries pay 25 percent of their quota subscriptions in reserve assets, defined as Special Drawing Rights (SDRs, the IMF's unit of account, see page 33), or the major currencies (U.S. dollars, euros, Japanese yen, or pounds sterling); the IMF can call on the remainder, payable in the member's own currency, to be made available for lending as needed. Quotas determine not only a country's subscription payments, but also the amount of financing that it can receive from the IMF and its share in SDR allocations. The IMF's total quotas are equivalent to SDR 213 billion (about $310 billion). Each country's voting power is the sum of its "basic votes" and its quota-based votes. Each IMF member has 250 basic votes (which were set in the Articles of Agreement as equal for all countries) plus one additional vote for each SDR 100,000 of quota.

If necessary, the IMF may borrow to supplement the resources available from its quotas. The IMF has two sets of standing arrangements to borrow from member countries, if necessary, to cope with any threat to the international monetary system. Under the two arrangements combined, the IMF has up to SDR 34 billion (about $50 billion) available to borrow.

Concessional loans and debt relief for low-income countries come from trust funds administered by the IMF.

The IMF and the World Bank—what's the difference?

The IMF and the World Bank were conceived at the Bretton Woods conference in July 1944 as institutions to strengthen international economic cooperation and to help create a more stable and prosperous global economy. While these goals have remained central to both institutions, their mandates and functions differ, and in both cases their work has evolved in response to new economic developments and challenges.

The IMF promotes international monetary cooperation and provides member countries with policy advice, temporary loans, and technical assistance so they can establish and maintain financial stability and external viability, and build and maintain strong economies. The Fund's loans are provided in support of policy programs designed to solve balance of payments problems—that is, situations where a country cannot obtain sufficient financing on affordable terms to meet net international payments. Some IMF loans are relatively short term (for periods of about a year, repayable in 3–5 years) and funded by the pool of quota contributions provided by its members. Other IMF loans are for longer periods (up to 3 years, repayable in 7–10 years), including concessional loans provided to low-income members on the basis of subsidies financed by past IMF gold sales and members' contributions. In its work in low-income countries, the IMF's main focus is on how macroeconomic and financial policies can contribute to the central goal of poverty reduction. Most IMF professional staff are economists.

The World Bank promotes long-term economic development and poverty reduction by providing technical and financial support, including to help countries reform particular sectors or implement specific projects—for example, building schools and health centers, providing water and electricity, fighting disease, and protecting the environment. World Bank assistance is generally long term and is funded both by member country contributions and through bond issuance. World Bank staff have qualifications that embrace a broader range of disciplines than those of IMF staff.

The IMF and the World Bank collaborate in a variety of areas, particularly in reducing poverty in low-income countries, providing debt relief for the poorest countries, coordinating programs to help meet the Millennium Development Goals (see pages 28–31), and assessing the financial sectors of countries. The two institutions hold joint meetings twice a year.

Paying for the IMF

The IMF's annual expenses are financed largely by the difference between annual interest receipts and annual interest payments. In fiscal year 2004, interest and charges received from borrowing countries and other incomes totaled $3.4 billion, while interest payments on the portion of members' quota subscriptions used in IMF operations and other operating expenses amounted to $1.4 billion. Administrative expenditures (including staff salaries and pensions, travel, and supplies) totaled $0.8 billion. The remainder was added to the IMF's general funds available for lending to member countries.❖

Promoting Healthy Economies

The main job of the IMF is to promote economic and financial stability in member countries and at the global level, as a basis for sustained economic growth, which is essential for raising living standards and reducing poverty.

Promoting macroeconomic and financial stability is partly a matter of avoiding economic and financial crisis, which can destroy jobs, slash incomes, and cause great human suffering. But it is also a matter of avoiding large swings in economic activity, high inflation, and excessive volatility in exchange rates and financial markets. Any of these types of instability can increase uncertainty and discourage investment, impede economic growth, and hurt living standards.

A dynamic market economy necessarily involves some degree of instability, as well as gradual structural change. The challenge for policymakers is to minimize instability without hampering the ability of the economic system to raise living standards through the higher productivity, efficiency, and employment that it generates.

Experience has shown that the countries with the strongest growth and employment rates and the least economic instability are those that

- follow sound macroeconomic (fiscal, monetary, and exchange rate) policies;
- allow markets to function, with appropriate regulatory, structural, and social safety net policies;
- are open to international trade;
- build strong economic policymaking and regulatory institutions;
- foster the development of strong financial systems;
- collect, monitor, and disseminate high-quality data; and
- embrace good governance.

The IMF promotes the stability of the international financial system through its three primary functions:

Surveillance. The IMF tracks economic and financial conditions around the world and examines whether policies in member countries are appropriate from the international as well as the national point of view. It alerts member countries to impending dangers, enabling governments to take preventive action if necessary.

Lending. The IMF lends to countries with balance of payments difficulties. The primary objectives of its lending to low-income countries are economic growth and poverty reduction.

Technical assistance and training. The IMF helps member governments develop strong policymaking institutions and economic policy instruments.

Surveillance in action

With its nearly universal membership, the IMF serves as an international forum where members can monitor and discuss developments in their respective economies and also global economic developments. In recent decades, the major challenge to financial stability has come from the growth in the size and sophistication of international capital markets. A large number of countries have gained access to these markets. In many ways, financial globalization is a welcome development. It provides opportunities to channel private capital flows to finance investment and growth in these countries where the capital can be used most productively. Capital market integration also, in principle, enables countries to adjust to external shocks without having to rely on official funds.

A call center in India's southern city of Bangalore.

But capital flows are also a potential source of volatility, as the past decade has shown, especially in many emerging market countries. A new breed of crisis—arising from sudden capital account outflows—has emerged and has proved harder to manage than the current account imbalances with which the IMF traditionally dealt in its lending activities. Arresting an outflow of capital requires measures that restore investor confidence, including, in some cases, financial help from international institutions.

Financial globalization has also increased the risk of contagion by introducing new channels—in addition to the traditional trade links—through which one country's vulnerabilities can affect others and even spread through the global economic system.

Current trends imply that financial globalization will intensify. Emerging markets are likely to represent a growing share of the world economy in the coming decades. The future emerging market giants, India and China, may pose particular systemic challenges. And the aging of industrial country populations, by shifting saving-investment balances internationally, may also imply larger cross-border capital flows.

Types of surveillance

Country. The IMF holds consultations, normally once a year, with each member country about its economic policies. (These are referred to as "Article IV consultations" because they are required by Article IV of the IMF's Articles of Agreement.) The consultations focus on the member's exchange rate, fiscal, and monetary policies; developments in its balance of payments and external debt; the influence of the country's policies on its external accounts; the international and regional implications of its policies; and the identification of potential vulnerabilities.

As financial markets around the world have become more integrated, IMF surveillance has become increasingly focused on capital account, financial, and banking sector issues. Institutional issues, such as central bank independence, financial sector regulation, corporate governance, and policy transparency and accountability, have also become increasingly important to IMF surveillance in the wake of financial crises in emerging market countries and in the context of member countries making the transition from planned to market economies.

Global. The Executive Board's conduct of global surveillance relies heavily on two staff reports—the semiannual ***World Economic Outlook*** and the ***Global Financial Stability Report***—as well as on more frequent discussions of world economic and market developments. The ***World Economic Outlook*** report offers a comprehensive analysis of prospects for the world economy, individual countries, and regions, and policy issues that arise. It also examines topical issues. The ***Global Financial Stability Report*** was introduced in 2002 (replacing the former ***International Capital Markets***

How is surveillance conducted?

To conduct country surveillance in accordance with Article IV, an IMF staff team visits a member country to meet government and central bank officials and collect and analyze economic and financial information. The analysis covers recent economic developments, as well as the exchange rate, monetary, fiscal, and relevant structural policies the country is pursuing. The Executive Director for the country usually participates in the mission's high-level meetings as an observer. The team also generally meets with other groups—such as trade unions, business associations, academics, financial market participants, and sometimes members of legislative bodies. The IMF staff team normally prepares a concluding statement, or memorandum, summarizing its findings and policy advice and leaves this statement with the national authorities, who have the option of publishing it.

On returning to headquarters, IMF staff members prepare a report that describes the economic situation in the country and their policy discussions with the national authorities and evaluates the country's policies. The Executive Board then discusses the report. The views of the country's authorities are conveyed to the Board by the country's Executive Director, and a written summary of the Board's discussion is produced and sent to the country's authorities. Subject to the approval of the country concerned, the documents related to the consultation are posted on the IMF's website.

Checking exchange rates in Turkey during the 2001 financial crisis.

report) to provide timely and comprehensive analysis of developments in both mature and emerging financial markets and to identify potential fault lines in the global financial system that could lead to crisis.

Regional. To supplement country consultations, the IMF also examines policies pursued under regional arrangements. It holds regular discussions with such regional economic institutions as the European Union and the European Central Bank, the West African Economic and Monetary Union, the Central African Economic and Monetary Community, and the Eastern Caribbean Currency Union. The IMF also takes part in policy discussions among finance ministers, central bank governors, and other officials in such groups as the Group of Seven major industrial countries, the Asia-Pacific Economic Cooperation forum, and the Maghreb countries associated with the European Union.

Taking early action

Early warning of an impending crisis is not enough to prevent the crisis; prompt preventive action is also necessary. Moreover, with increasing financial integration, surveillance must focus not just on crisis-prone countries but also on the system as a whole. Even if a country is not itself at risk, it may be contributing to global imbalances and placing the rest of the world at risk. The IMF, as the impartial voice

Combating terrorist financing

The IMF and the World Bank are working together to help countries put in place strong regimes to counter money laundering and combat the financing of terrorism. Work in this area is linked to the joint drive to strengthen financial sectors through the Financial Sector Assessment Program (FSAP). Some governments, particularly in low-income countries, need help to put in place legislative and institutional frameworks to combat terrorist financing. The IMF and the World Bank are cooperating to provide technical expertise.

of the international community, has a particularly important role to play here in highlighting major economic challenges that the world has to tackle. This is why, for example, the IMF has, during 2003–04, called on the United States, Europe, and Japan to contribute in particular ways to more balanced and sustained global growth. It has asked the United States to take steps to reduce its fiscal and external current account deficits, and the European Union and Japan to promote more vigorous growth through structural reforms. Surveillance of the major industrial countries is critical, and global surveillance, including of capital markets, needs to be constantly strengthened.

Lessons from the Mexican crisis of 1994–95 and the Asian crisis of 1997–98 prompted significant efforts to sharpen the focus of surveillance on crisis prevention. The IMF now monitors economic and financial developments more closely at the regional and global levels and advises its members to incorporate more "shock absorbers" into their policies—such as fiscal policies that leave room for larger deficits in difficult times, adequate reserve levels, efficient and diversified financial systems, exchange rate flexibility in many cases, and more effective social safety nets. And it has introduced several specific initiatives that seek to make countries less vulnerable to crisis:

Setting new standards in Shanghai, China.

- In 1999, partly in response to the Asian crisis, the IMF and the World Bank introduced the **Financial Sector Assessment Program** (FSAP), through which they assess countries' financial sectors in depth. FSAP reports help countries identify the strengths, risks, and vulnerabilities of their financial systems and formulate appropriate policy responses. The IMF is also involved in international efforts to combat money laundering and the financing of terrorism (see page 17).
- The IMF has developed and actively promotes **standards and codes** of good practice in economic policymaking.
- The IMF has been working to improve its ability to assess countries' vulnerabilities to crisis, including by developing **vulnerability indicators** and **early warning system** models.
- The IMF has improved its **debt sustainability analysis** to help countries judge whether they can service their external and public debts over time without an unrealistically large correction to the balance of income and expenditure.
- The IMF has been increasing efforts to promote **good governance**, which is essential for strong economic performance. Particular areas of emphasis include improving the efficiency and accountability of public sectors and financial systems. The IMF has also focused on improving its own accountability (see section on Independent Evaluation Office, page 32) and **transparency**.

Transparency at the IMF

The IMF is now a lot more open with information while preserving its role as a confidential advisor to its members. The IMF's Executive Board has adopted a series of measures to improve the transparency of members' policies and data and enhance its own external communications.

The IMF now publishes most policy papers written for the Executive Board and posts financial and operational information on its website. It also makes available more information about its oversight of members' policies and their IMF-supported programs. Although publication of country documents requires the consent of the relevant member country, there is a presumption by the Board in favor of publication.

The Executive Board decided in 2003 to give the public access to its documents in the IMF's archives that are over 5 years old, minutes of Executive Board meetings that are over 10 years old, and other documentary materials that are over 20 years old, subject to certain restrictions.❖

(Details of changes in the IMF's transparency policy can be found at *www.imf.org/external/np/pdr/trans/2004/021204.htm*)

Helping When Things Go Wrong

However good the IMF's surveillance process and the economic policies governments implement, it is unrealistic to expect that crises will never occur. Indeed, a dynamic market economy will tend to face occasional crises—and the IMF's role is then to help mitigate their impact and shorten their duration through its policy advice and financial support and also to try to prevent the crisis from spreading to other countries. This has sometimes required the commitment of substantial resources by the IMF. In most cases, this investment has paid off. For example, the IMF's loan of $21 billion to Korea in December 1997 was very large by any standards. But it helped restore financial stability by early 1998 and strong growth the following year. And Korea repaid the IMF ahead of schedule. That was a case where large-scale support was appropriate and successful. The IMF played a similar role in Brazil in 1998 and Turkey in 2001.

Why do economic crises occur?

Bad luck, bad policies, or a combination of the two may create balance of payments difficulties in a country—that is, a situation when the country cannot obtain sufficient financing on affordable terms to meet net international payments. In the worst case, the difficulties can build into a crisis. The country's currency may depreciate at a rate that destroys confidence in its value, with disruptive and destructive consequences for the domestic economy, and the problems may spread to other countries.

The causes of such difficulties are often varied and complex. But key factors have included weak domestic financial systems, large and persistent fiscal deficits, high levels of external debt, exchange rates fixed at inappropriate levels, natural disasters, and armed conflicts.

Some of these factors can directly affect a country's trade account—reducing exports or increasing imports. Others may reduce the financing available for international transactions—for example, by causing investors to lose confidence in their investments in a country, leading to massive asset sales and a sudden departure of capital overseas, or "capital flight."

How IMF lending helps

IMF lending seeks to give countries breathing room while they implement policies of adjustment and reform aimed at resolving their balance of payments problems and restoring conditions for strong

"Before a member country can receive a loan, the country's authorities and the IMF must agree on the appropriate program of economic policies."

economic growth. These policies will vary depending on the country's circumstances, especially the root causes of the problems. For instance, a country facing a sudden drop in the price of a key export may simply need financial assistance to tide it over until prices recover and to help ease the pain of an otherwise sudden and sharp adjustment. A country suffering from capital flight needs to address whatever problems led to the loss of investor confidence: perhaps interest rates that are too low, an overvalued exchange rate, a large government budget deficit, a debt stock that appears to be growing too fast, or an inefficient and poorly regulated domestic banking system.

Before a member country can receive a loan, the country's authorities and the IMF must agree on an appropriate program of economic policies (see Conditionality, page 23).

In the absence of IMF financing, the adjustment process would be more difficult. For example, if investors do not want to buy any more of a country's government bonds, its government has no choice but to reduce the amount of financing it uses—by cutting its spending or increasing its revenues—or to finance its deficit by printing money. The "belt tightening" involved in the first case would be greater without an IMF loan. And, in the second case, the result would be inflation, which hurts the poor most of all. IMF financing can facilitate a more gradual and carefully considered adjustment.

The policy advice provided by the IMF, including on the formulation of policy programs to be supported by IMF loans, is tailored to a country's circumstances. In recent years, the largest number of loans has been made through the Poverty Reduction and Growth Facility (PRGF), which provides low-income countries with loans at below-market interest rates and over relatively long time horizons (repayable over 5½–10 years). However, the largest amount of funds is provided through Stand-By Arrangements, which charge market-based interest rates on loans (usually for 12–18 months, repayable over 3¼–5 years) to assist with short-term balance of payments problems (see pages 24–25).

The IMF provides other types of loans as well, including emergency assistance to countries that have experienced a natural disaster or are emerging from armed conflict.

Resolving external debt crises

Some balance of payments difficulties arise because countries amass debts that are not sustainable—that is, they cannot be serviced under any feasible set of policies. In these circumstances, a way must be found for a country and its creditors to restructure the debt. This may involve some easing of the repayment terms, like an extension of maturities and/or an agreed reduction in the face value of the debt.

Together with the World Bank, the IMF has been working to reduce to sustainable levels the debt burdens of heavily indebted poor countries under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, introduced in 1996 and enhanced in 1999. So far, 27 countries have been approved for debt service relief provided by the Fund and the Bank, other multilateral institutions, and other (mostly official) creditors.

More recently, the IMF has been working to help improve the sovereign debt restructuring process between countries and their private creditors:

- The IMF has been encouraging member countries to include **collective action clauses** (CACs) in new international sovereign bonds to facilitate a restructuring of sovereign debt when, in extreme circumstances, it may be needed to resolve financial crises. CACs in bonds issued under New York law have now become commonplace, much sooner than many people had anticipated. Several emerging market countries are now including CACs in their sovereign bonds. It is, however, too soon to evaluate the contribution such clauses can make to improving the orderly resolution of debt crises.
- The IMF is also supporting private sector efforts to formulate a **voluntary code** of conduct to provide guidance to debtors and creditors in their negotiations.

In addition to these efforts, during 2001–02, the Fund's management sought to advance a formal treaty-based framework—the **Sovereign Debt Restructuring Mechanism**, or SDRM. Although the framework did not attract the requisite political support to move forward, those efforts did much to improve understanding of the impediments to timely and effective debt restructuring and gave new impetus to complementary approaches, especially CACs and a code of conduct.❖

Auto industry workers rally against unemployment in Brazil.

Getting Back on Track

The IMF provides financial assistance to members with balance of payments problems to support policies of adjustment and reform, including concessional assistance to low-income countries. The financing is for general balance of payments support, rather than for specific purposes or projects, like the financing provided by development banks. All financial assistance by the IMF is approved by its Executive Board.

The volume of IMF lending has fluctuated significantly. The oil shocks of the 1970s and the debt crisis of the 1980s were both followed by sharp increases in IMF financing. In the 1990s, the transition process in Central and Eastern Europe and the former Soviet Union, as well as crises in emerging market economies, led to another surge in the demand for IMF financing.

Over the years, the IMF has developed a number of loan instruments, or "facilities," that are tailored to address the specific circumstances of its diverse membership. Low-income countries may borrow at a concessional interest rate through the Poverty Reduction and Growth Facility (PRGF). Nonconcessional loans are provided through four main facilities: Stand-By Arrangements, the Extended Fund Facility, the Supplemental Reserve Facility, and the Compensatory Financing Facility (see box on pages 24–25). The IMF also provides emergency assistance to countries recovering from natural disasters and armed conflicts, in some cases at concessional interest rates.

“When a country borrows from the IMF, its government makes commitments to strengthen its economic and financial policies.”

Except for the PRGF, all facilities are subject to the IMF's market-related interest rate, known as the “rate of charge,” and some carry an interest rate premium or “surcharge.” The rate of charge is based on the SDR interest rate, which is revised weekly to take account of changes in short-term interest rates in the major international money markets. Large loans carry a surcharge and must be repaid early if a country's external position permits.

The amount that a country can borrow from the Fund—its “access limit”—varies with the type of loan but is typically a multiple of the country's IMF quota.

The IMF encourages early repayment of loans. Although it has a standard repayment obligations schedule, members are expected to repay according to a faster schedule when possible.

Conditionality in IMF lending

When a country borrows from the IMF, its government makes commitments to strengthen its economic and financial policies—a requirement known as conditionality. Conditionality provides assurance to the IMF that its loan will be used to resolve the borrower's economic difficulties and that the country will be able to repay promptly, so that the funds become available to other members in need. In recent years, the IMF has worked to streamline the conditions attached to its financing. The IMF's Board adopted revised guidelines in September 2002 emphasizing the need to focus conditionality on the key macroeconomic objectives and policy instruments and to promote stronger national ownership of policy programs.

Unloading banknotes in Jakarta, Indonesia.

The policies to be adopted are designed not just to resolve the immediate balance of payments problem but also to lay the basis for sustainable economic growth by achieving broader economic stability—for example, measures to contain inflation or reduce public debt. Policies may also address structural impediments to healthy growth—like price and trade liberalization, measures to strengthen financial systems, and improvements in governance.

Together, these policies constitute a member country's “policy program,” which is described in a letter of intent or a memorandum of economic and financial policies that accompanies the country's request for IMF financing. The specific objectives of a program and the policies adopted depend on the country's circumstances. However, the overarching goal in all cases is to restore or maintain balance of payments viability and macroeconomic stability and to set the stage for sustained, high-quality growth.

How is compliance assessed?

Most IMF loans feature phased disbursements. This allows the IMF to verify that a country is continuing to adhere to its commitments before disbursing subsequent installments. Program monitoring relies on several different tools:

- **Prior actions** are measures that a country agrees to take before the IMF's Executive Board approves a loan and before the initial disbursement takes place. Such measures ensure that the program has the necessary foundation to succeed. Prior actions could include, for example, adjustment of the exchange rate to a sustainable level, elimination of price controls, or formal approval of a government budget consistent with the program's fiscal framework.
- **Performance criteria** are specific conditions that have to be met for the agreed amount of credit to be disbursed in the subsequent phases. There are two types of performance criteria: quantitative and structural. **Quantitative** criteria

typically refer to macroeconomic policy variables such as international reserves, monetary and credit aggregates, fiscal balances, and external borrowing. For example, a program might include a minimum level of net international reserves, a maximum level of central bank net domestic assets, and/or a maximum level of government borrowing.

In arrangements where **structural reforms** are an essential part of the economic program, structural performance criteria are also used. These vary widely across programs but could, for example, include specific measures to restructure such key sectors as energy, reform social security systems, or improve financial sector operations.

• Initially, conditions may be set as **indicative targets** when there is substantial uncertainty about economic trends beyond the first months of the program. As uncertainty is reduced, and the reforms take effect, these targets will

How the IMF lends: Terms and conditions of financial facilities

Stand-By Arrangement and Extended Fund Facility

• ***Stand-By Arrangement (introduced in 1952):*** Designed to address balance of payments difficulties that are short term; length of Stand-By Arrangements is typically 12–18 months with a legal maximum of 3 years.

Normal access limits: Annual: 100 percent of quota; cumulative: 300 percent of quota in combination with Extended Fund Facility.

Maturities (expected repayment)/(obligatory repayment): 2¼–4 years/3¼–5 years.

Charges: Basic rate of charge + level-based surcharges of 100 basis points on amounts above 200 percent of quota and 200 basis points on 300 percent of quota.

Conditions: Member adopts policies that provide confidence that its balance of payments difficulties will be resolved within a reasonable period.

Cumulative access: Above 25 percent of quota is subject to stricter conditions (known as upper credit tranche conditionality).

Phasing and monitoring: Quarterly disbursements contingent on observance of performance criteria and other conditions.

• ***Extended Fund Facility (1974):*** Provides longer-term assistance in support of structural reforms that address longer-term balance of payments difficulties.

Normal access limits: Annual: 100 percent of quota; cumulative: 300 percent of quota in combination with Stand-By Arrangement.

Maturities (expected repayment)/(obligatory repayment): 4½–7 years/4½–10 years.

Charges: Basic rate of charge + level-based surcharges of 100 basis points on amounts above 200 percent of quota and 200 basis points above 300 percent of quota.

Conditions: Member adopts 3-year program, with structural agenda, and provides annual detailed statement of policies for the next 12 months.

Phasing and monitoring: Quarterly or semiannual disbursements contingent on observance of performance criteria and other conditions.

Special loans

• ***Supplemental Reserve Facility (1997):*** Provides short-term assistance to members with balance of payments difficulties related to a sudden and disruptive loss of market confidence. Available only as a supplement to a regular arrangement.

Access limits: None; this facility is available only when access under associated regular arrangement would otherwise exceed either annual or cumulative limit.

Maturities (expected repayment)/(obligatory repayment): 2–2½ years/2½–3 years.

Charges: Basic rate of charge + 300 basis points rising to a maximum of 500 basis points after 2½ years.

Conditions: Program under associated arrangement, with strengthened policies to address a loss of market confidence.

Phasing and monitoring: Facility available for one year; front-loaded access with two or more disbursements.

normally be established as performance criteria, and modified as needed.

• **Structural benchmark**s are similar to structural performance criteria, except that individual benchmarks are less critical for meeting the program's objectives. Thus, benchmarks may help the Board assess a country's progress on structural reforms, but failure to achieve them would not necessarily interrupt Fund financing.

• Another important monitoring tool is the **program review,** which serves as an opportunity for a broad-based assessment by the Executive Board of progress with the program. Reviews are used to discuss policies and introduce changes to the program that may be necessary in light of new developments. In some cases, a country might request a waiver for breaching the performance criteria—for example, when its authorities have already taken measures to correct the deviation.❖

• ***Compensatory Financing Facility (1963):*** Covers a shortfall in a member's export earnings and services receipts or an excess in cereal import costs that is temporary and arises from events beyond the member's control.

Access limits: Maximum 45 percent of quota for each element—export shortfall and excess cereal import costs––and a combined limit of 55 percent of quota.

Maturities (expected repayment)/(obligatory repayment): 2¼–4 years/3¼–5 years.

Charges: Basic rate of charge; not subject to surcharges.

Conditions: Usually available only when a member already has a Stand-By Arrangement or when its balance of payments position, apart from its export shortfall or import excess, is otherwise satisfactory.

Phasing and monitoring: Typically disbursed over a minimum of six months and in accordance with the phasing provisions of the arrangement.

• ***Emergency Assistance***

1. **Natural disasters (1962):** Provides quick, medium-term assistance to members with balance of payments difficulties related to natural disasters.
2. **Postconflict (1995):** Provides quick, medium-term assistance for balance of payments difficulties related to the aftermath of civil unrest or international armed conflict.

Access limits: 25 percent of quota, although up to an additional 25 percent of quota can be made available in exceptional cases.

Maturities (expected repayment)/(obligatory repayment): No early repayment expectation/3¼–5 years.

Charges: Basic rate of charge; not subject to surcharges; possibility of interest subsidy if financing is available; currently, the interest subsidy is available only for low-income countries receiving emergency postconflict assistance.

Conditions: Reasonable efforts to overcome balance of payments difficulties and focus on institutional and administrative capacity building to pave the way toward an upper credit tranche arrangement or an arrangement under the Poverty Reduction and Growth Facility. The conditions for emergency postconflict assistance include that IMF support would be part of a concerted international effort to address the aftermath of the conflict.

Phasing and monitoring: Typically none.

Loans for low-income members

• ***Poverty Reduction and Growth Facility (1999):*** (Replaced the Enhanced Structural Adjustment Facility, created in 1987.) Provides longer-term assistance for deep-seated, structural balance of payments difficulties; aims at sustained, poverty-reducing growth.

Access limits: 140 percent of quota; exceptional maximum, 185 percent.

Maturities (expected repayment)/(obligatory repayment): No early repayment expectation/5½–10 years.

Charges: Concessional interest rate: ½ of 1 percent a year; not subject to surcharges.

Conditions: Based on a Poverty Reduction Strategy Paper prepared by the country in a participatory process, and integrating macroeconomic, structural, and poverty reduction policies.

Phasing and monitoring: Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and completion of reviews.❖

Passing On Know-How

The IMF provides technical advice and training to help strengthen the design and implementation of macroeconomic and financial sector policies in member countries and boost the institutional capacity of their governments. Sound economic policymaking and implementation require know-how and effective government institutions. Many developing countries, in particular, need help to build up expertise in economic management and advice about what policies, reforms, and institutional arrangements are appropriate and have worked well elsewhere.

Through staff missions sent from headquarters, the provision of specialists on a short-term basis, resident advisors, and training in the field or at the Fund's headquarters or its regional training institutes, the IMF offers technical assistance in the core areas of its expertise. These include macroeconomic policy formulation and management; monetary policy; central banking; the financial system; foreign exchange markets and policy; public finances and fiscal management; and macroeconomic, external, fiscal, and financial statistics (see Indonesia, next page). Such assistance is a benefit of IMF membership and is free except for countries that can afford to reimburse the IMF.

Checking textile machines in China. IMF technical assistance has helped China's reform process.

In the early to mid-1990s, as the IMF's membership expanded to include a number of countries in transition from centrally planned to market-based economies, the Fund's technical assistance grew rapidly. More recently, the IMF's efforts to strengthen the global financial system so as to reduce the risk of crises and improve the management and resolution of those that do occur have generated new demands for technical assistance, from countries seeking to adopt international standards and codes for financial, fiscal, and statistical management. The Fund's recent work on offshore financial centers and the fight against money laundering and the financing of terrorism have also required extra technical assistance. In addition, the IMF has mounted significant efforts, in coordination with other bilateral and multilateral technical assistance providers, to give prompt policy advice and operational assistance to countries emerging from armed conflict. At the same time, there is a continuing demand from low-income countries for help with debt sustainability analysis and the management of debt-reduction programs, and with designing and implementing programs to enhance growth and accelerate poverty reduction.

Increasingly, the IMF has been organizing its technical assistance and training at a regional level. It operates five **regional technical assistance centers**, two in Africa and one each in the Caribbean, the Middle East, and the Pacific. In addition to training offered at headquarters, the IMF offers courses and seminars through regional institutes and programs. There are currently four **regional training centers**: The Joint Regional Training Center for Latin America (in Brazil), the Joint Africa Institute (in Tunisia), the IMF-Singapore Regional Training Institute (in Singapore), and the Joint Vienna Institute (in Austria). The IMF has furthermore set up **training programs** in collaboration with China and the Arab Monetary Fund. In

FY2004, external financing paid for 29 percent of total technical assistance delivered by the IMF. Japan remained the largest single donor, providing some 60 percent of all the external finance.

IMF Institute

The IMF Institute trains officials from member countries through courses and seminars in the core areas of macroeconomic policy management, and financial sector, fiscal, and external sector policies. Training is offered by staff from the Institute and other IMF departments, occasionally assisted by outside academics and experts. Applications from developing and transition country officials are given preference. In FY2004, the IMF Institute, with the assistance of other IMF departments, offered 120 courses, attended by 3,846 participants. Much of the training was provided through the IMF's four regional centers, located in Austria, Brazil, Singapore, and Tunisia, and through the programs operated in collaboration with China and the Arab Monetary Fund. Training in Washington, including through longer courses, continued to play an important role, accounting for about one-third of participant-weeks. The remainder of the training was at locations outside the IMF regional network, largely as part of collaboration between the IMF Institute and national or regional training programs but also in the form of distance learning.❖

Boosting tax revenues in Indonesia

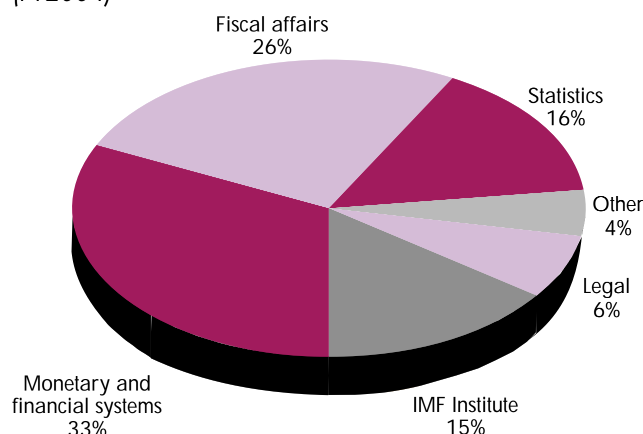
Indonesia made significant progress during 2002–03 in strengthening its tax and customs administrations with assistance from the IMF. Initiatives to register more corporate and individual taxpayers, rationalize audit programs, and speed up the collection of tax arrears generated tax revenues amounting to 0.3 percent of GDP in 2002 and 0.5 percent of GDP in 2003. Indonesia also set up a modern tax office dedicated to large taxpayers and a computerized system for filing tax returns and recording tax payments. In the area of customs administration, a comprehensive modernization strategy is being carried out by streamlining customs clearance procedures, curbing smuggling, controlling undervaluation of imports, and improving the customs department's governance.

Reform of Indonesia's revenue administration has benefited from close cooperation between the IMF and donor agencies from Australia, Canada, and the United States.

The IMF is also coordinating technical assistance from donors in the area of legal reform. The program, financed by the Netherlands, is helping Indonesia authorities to establish an effective bankruptcy regime and a competent and objective judiciary to enforce it.

Technical assistance by function

(FY2004)



Striving for a Better Life in Poor Countries

The world economy has grown steadily since World War II, bringing widespread prosperity and lifting many millions out of poverty, especially in Asia. Nevertheless, daunting challenges remain. In Africa, in particular, progress in poverty reduction has been very limited in recent decades and some countries have fallen back. Looking ahead, in the next 25 years, the world's population is projected to grow by about 2 billion, mostly in developing economies. Many of these people will be doomed to poverty without concerted efforts both by the low-income countries themselves and by the international community.

To tackle these issues, the heads of 189 countries signed the Millennium Declaration in September 2000—leading to the adoption of the Millennium Development Goals (MDGs), a set of eight objectives incorporating clear targets for reducing income poverty, tackling other sources of human deprivation, and promoting sustainable development (see page 31). A follow-up meeting of world leaders in Monterrey, Mexico, in March 2002 established a shared understanding of the broad development strategy and policies needed to achieve the MDGs. The Monterrey Consensus ushered in a new compact between developing and developed countries that stressed their mutual responsibilities in the quest to meet the development goals. It called on developing countries to improve their policies and governance and on developed countries to step up their support, especially by providing more and better aid and more open access to their markets.

The first ***Global Monitoring Report,*** prepared by the World Bank in 2004 with input from IMF staff, addresses policies and actions in developed and developing countries needed to achieve the MDGs and the related contribution of major agencies. The report makes clear that, although progress has been made, achievement of the development goals will require all parties to do more, as set out in the Monterrey Consensus.

How the IMF helps

The central goal of the IMF's work in low-income countries is to help them achieve deep and lasting poverty reduction through policies that promote growth, generate employment, and target assistance to the poor. In low-income countries, the IMF works closely with the World Bank, the lead international agency on poverty reduction. Together, they are helping these countries make progress toward the MDGs and contributing to the approach embodied in the Monterrey Consensus through technical assistance, debt relief, lending, and support for trade liberalization.

Coordinated development assistance

In 1999, the IMF and the World Bank announced two initiatives to boost their support for low-income countries:

- The introduction of Poverty Reduction Strategy Papers (PRSPs), written by each borrowing country and setting out its "homegrown" policy strategy to provide the basis for the IMF's and the World Bank's concessional lending;

AIDS has claimed the lives of this girl's parents in Mozambique.

• The enhancement of the debt reduction program—the Heavily Indebted Poor Countries (HIPC) Initiative—introduced in 1996.

The PRSP approach involves a comprehensive country-based strategy for poverty reduction. It aims to provide the crucial links between donors, recipients, and the development objectives required to meet the MDGs. The PRSPs provide the operational basis for IMF and World Bank concessional lending and for debt relief under the HIPC Initiative. In the case of the IMF, loans are provided through its Poverty Reduction and Growth Facility (PRGF).

Low-income countries prepare their strategies with the participation of domestic stakeholders and external development partners. The strategies are subject to endorsement by the Executive Boards of the IMF and the World Bank. Updated periodically (at least once every five years) and with annual progress reports, PRSPs describe the macroeconomic, structural, and social policies that countries plan to pursue and how they will finance them. Once a country has developed a PRSP endorsed by the IMF and the World Bank, it becomes eligible for loans from the PRGF trust and for HIPC debt relief.

How is this approach working? In many low-income countries, growth of output and per capita incomes has increased markedly since the late 1990s. Bangladesh, Benin, Cambodia, Mali, Mozambique, Tanzania, Uganda, and Vietnam, for example, have seen real GDP growth averaging 5 percent or more a year for the past five years. Internal and external imbalances in these countries have been reduced: inflation has fallen to single digits—the lowest in two decades—and international reserves are at their highest levels since the 1980s. Improvements in macroeconomic performance have been especially marked in countries that have, or have had, PRGF Arrangements.

Nevertheless, while progress has been heartening, most low-income countries are far from attaining the sustained high growth necessary for global achievement of the MDGs by the 2015 deadline.

What are the problems? Both IMF staff and the IMF's Independent Evaluation Office (see page 32) have identified a number of difficulties. The IEO issued a report in July 2004 analyzing the experiences of countries with PRSPs completed by end-2002, with in-depth studies of Guinea, Mozambique, Nicaragua, Tajikistan, Tanzania, and Vietnam. It concluded that, while PRSPs have significant potential and have had some success in improving country ownership of policy programs, enhancing participation, and providing better-quality strategies, achievements to date have fallen short of expectations. As for PRGF-supported programs, there have been changes in the right direction, but countries are not fully incorporating them in their growth and poverty reduction strategies. Among other changes, the IEO called for greater flexibility in the way PRSPs are formulated to accommodate diverse political and administrative systems and constraints.

(For more information, see *www.imf.org/ieo.*)

Reducing debt burdens

The HIPC Initiative, launched in 1996, is designed to help low-income countries reduce their external debts while improving

Status of countries in the HIPC Initiative
(as of July 2004)

Countries entitled to full debt relief, having met all criteria (14)		Countries that have begun to receive aid, but must meet additional criteria for full debt relief (13)		Countries still to be considered (11)	
Benin	**Mauritania**	**Cameroon**	**Madagascar**	**Burundi**	**Lao PDR**
Bolivia	**Mozambique**	**Chad**	**Malawi**	**Central African Republic**	**Liberia**
Burkina Faso	**Nicaragua**	**Congo, Dem. Rep. of**	**Rwanda**	**Comoros**	**Myanmar**
Ethiopia	**Niger**	**Gambia, The**	**São Tomé and Príncipe**	**Congo, Rep. of**	**Somalia**
Ghana	**Senegal**	**Guinea**	**Sierra Leone**	**Côte d'Ivoire**	**Sudan**
Guyana	**Tanzania**	**Guinea-Bissau**	**Zambia**		**Togo**
Mali	**Uganda**	**Honduras**			

The Millennium Development Goals

The eight Millennium Development Goals seek, by 2015, to (1) halve extreme poverty and hunger relative to 1990; (2) achieve universal primary education; (3) promote gender equality; (4) reduce child mortality; (5) improve maternal health; (6) combat HIV/AIDs, malaria, and other diseases; (7) ensure environmental sustainability; and (8) establish a global partnership for development.

The IMF encourages low-income countries to use the Poverty Reduction Strategy Paper process to set out realistic plans to achieve the MDGs by strengthening domestic policies and securing additional external financing. Several low-income countries do not have the institutional capacity to absorb large amounts of external aid that could help finance additional spending needed to achieve the MDGs. Accordingly, IMF staff regularly examine and discuss with country authorities the potential macroeconomic implications of a possible substantial increase in aid and of fluctuations in aid flows. In this work, the IMF pays close attention to the implications of increasing and fluctuating aid flows for fiscal policy and debt sustainability.

At the same time, the IMF encourages rich countries to honor their commitments to increase development assistance, step up debt relief to poor countries, and eliminate trade practices that disadvantage developing countries.

their policies so as to avoid further debt problems. It aims to ensure that no poor country carries a debt burden it cannot manage. The Initiative coordinates debt relief provided by multilateral organizations and governments. Following a comprehensive review in September 1999, a number of enhancements were approved to provide faster, deeper, and broader debt relief and to strengthen the links between debt relief, poverty reduction, and social policies. Countries' continued efforts toward macroeconomic adjustment and structural and social policy reforms—including increased spending on such social sector programs as basic health care and education—are central to the enhanced HIPC Initiative.

Debt relief is essential to enable low-income countries to free up resources for the social and infrastructure spending that they will need to make progress toward achieving the MDGs. Before the Initiative, eligible countries were, on average, spending slightly more on debt service than on health care and education combined. This is no longer the case in the 27 countries receiving HIPC relief. Under recent programs supported by the IMF and the World Bank, these countries have increased their expenditures on health care, education, and other social services to almost four times the amount of debt service payments, on average.

As of end-April 2004, about $52 billion had been committed in debt service relief to the 27 countries that have met the criteria to start receiving aid (see table on page 30). The debt stocks of these countries are projected to decline by about two-thirds as a result.

Trade issues and the Doha Round

Trade is potentially much more important than aid in helping developing countries prosper. The IMF is continuing to press for the successful conclusion of the Doha Development Round of multilateral trade talks (begun in 2001) and, together with the World Bank, has urged participants from both developed and developing nations to make this a priority. The IMF and the World Bank have jointly emphasized the need for the liberalization of trade in agricultural products, for all countries to take on substantive obligations to liberalize trade, and for flexibility in areas that may result in heavy regulatory burdens on poor countries.

The IMF has been doing its part to support an open international trading system. In April 2004, the Board approved a new financing policy, the Trade Integration Mechanism, to help countries cope with balance of payments shortfalls resulting from the implementation of World Trade Organization (WTO) agreements or nondiscriminatory trade liberalization by other countries. Under the new policy, the IMF will provide access to its resources, within its existing facilities, to help countries meet balance of payments needs resulting from specific trade measures taken by other countries.

To help ensure that member countries can take full advantage of the opportunities of multilateral trade liberalization, the IMF has

- provided technical assistance in such areas as customs reform, tax and tariff reform, and data improvements;
- helped countries incorporate trade reforms in their poverty reduction strategies;
- identified potential risks and helped countries understand the benefits of international integration; and
- assessed how they are affected by trade reforms, such as the implications of reduced agricultural subsidies, preference erosion, and the phaseout of textile quotas.❖

Pushing for Change at the IMF

To get objective and substantive feedback on the IMF's performance, the Executive Board established the Independent Evaluation Office (IEO) in July 2001. The IEO has produced a series of detailed reports on aspects of the IMF's work. The reports are used to evaluate how the IMF does its job and to help formulate desirable changes in policies and practices.

The IEO reports to the IMF's Executive Board. It works at arm's length from the Board and independently of the management and staff of the institution. The IEO comprises a director and 12 other staff, most of them recruited from outside the IMF.

The IEO's website (www.imf.org/ieo) gives detailed information on its terms of reference, work to date, status of ongoing projects, evaluation reports, and seminars and outreach activities. The website also provides opportunities for interested stakeholders (country authorities, academia, nongovernmental organizations, and other members of civil society) to interact with the IEO in defining its work program, determining the terms of reference of individual studies, and submitting substantive inputs to these studies.

The IEO develops its work programs on the basis of internal discussions and broad-based consultations. Studies completed during 2002–04 were evaluations of prolonged use of IMF resources; the role of the IMF in recent capital account crises in Korea, Indonesia, and Brazil; the role of the IMF in Argentina during the crisis of 2000–02; and the effectiveness of the Poverty Reduction Strategy Paper (PRSP) process and the Poverty Reduction and Growth Facility (PRGF). An evaluation of IMF technical assistance is expected to be completed in 2004, as envisaged under the 2003–04 work program. The 2004–05 work program expands the IEO's evaluation efforts to four projects, which will include the Financial Sector Assessment Program and Financial Sector Stability Assessments; the IMF's approach to capital account liberalization; the role of multilateral surveillance; and a country case study. ❖

Common themes in IEO evaluations

The IEO's initial reports contained several common themes related to program design and uncertainty, surveillance, and conditionality and ownership.

Program design and uncertainty

- **Risks should be explicitly taken into account in program design, and excessively optimistic assumptions avoided. Explicit contingency planning would help make programs more flexible. Greater transparency about the assumptions and rationale of program design would permit more rapid redesign in the event contingencies actually occur.**

Surveillance

- **Surveillance should inform program design. Based on its surveillance activities, the IMF should provide the authorities with a frank assessment of critical weaknesses and encourage the authorities to develop a reform plan.**
- **Greater candor is key to making surveillance more effective.**
- **Systematic stocktaking allows for greater learning from experience, especially in countries with IMF-supported programs.**

Conditionality and ownership

- **Domestic political commitment to core policy adjustments is more important than specific conditions.**
- **The IMF should consider "second-best" adjustment programs that meet minimum criteria, and should also be prepared to hold back financing when country ownership of programs is insufficient or programs do not meet minimum criteria.**

At a Glance

Key IMF indicators (as of July 31, 2004, unless indicated)

Membership	184 countries
Headquarters	Washington DC
Executive Board	24 members
Total staff	2,700
Quotas	
Largest	United States (17.5% of total)
Smallest	Palau (0.001% of total)
Lending resources	
Available resources[1]	$126 billion (SDR 86.5 billion)
One-year forward commitment capacity[2]	$91 billion (SDR 62.1 billion)
Credit lines[3]	
Credit available under borrowing arrangements	$50 billion (SDR 34.0 billion)
Reserves	
Precautionary balances[4]	$10 billion (SDR 6.636 billion)
Other assets	
Gold holdings	103.4 million fine ounces
Value on IMF books	$9 billion (SDR 5.9 billion)
Market value	$41 billion (at $393.75/oz.)

Credit outstanding	
Total credit[5]	$96 billion (SDR 66.2 billion)
Nonconcessional credit	$86 billion (SDR 59.3 billion)
Concessional credit	$10 billion (SDR 7.0 billion)
Current lending arrangements	
Stand-By Arrangements	13
Extended Fund Facility	2
Poverty Reduction and Growth Facility	38
Biggest borrowers	
Brazil	$25 billion (SDR 17.2 billion)
Turkey	$23 billion (SDR 15.6 billion)
Argentina	$14 billion (SDR 9.9 billion)
Indonesia	$10 billion (SDR 6.6 billion)
Russia	$4 billion (SDR 2.6 billion)
Debt Relief for Heavily Indebted Poor Countries (HIPCs)	
Full debt relief, having met all criteria	14 countries
Some debt relief, but must meet additional criteria for full debt relief	13 countries
Still to be considered	11 countries
Total debt relief for HIPC[6]	$55 billion at end-2003
Cost to IMF[6]	$5 billion at end-2003

Data: IMF Finance Department

Notes:

[1]The gross amount of money the IMF has available for lending minus money that has been committed, but not yet paid out, under existing loan programs with member countries.

[2]The primary measure of IMF liquidity. It is calculated by adding loan repayments scheduled in the coming year to available resources and then subtracting a prudential balance set at $48 billion (SDR 32.8 billion) for 2004.

[3]The IMF has two credit lines it can access if it needs additional liquidity. These are known as the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). The last time these credit lines were activated was in 1998.

[4]The IMF accumulates reserves to protect itself and its creditor members from losses in the event of nonpayment of loans. This figure does not include the IMF's gold holdings.

[5]Details may not add as a result of rounding.

[6]Net present value.

SDRs explained

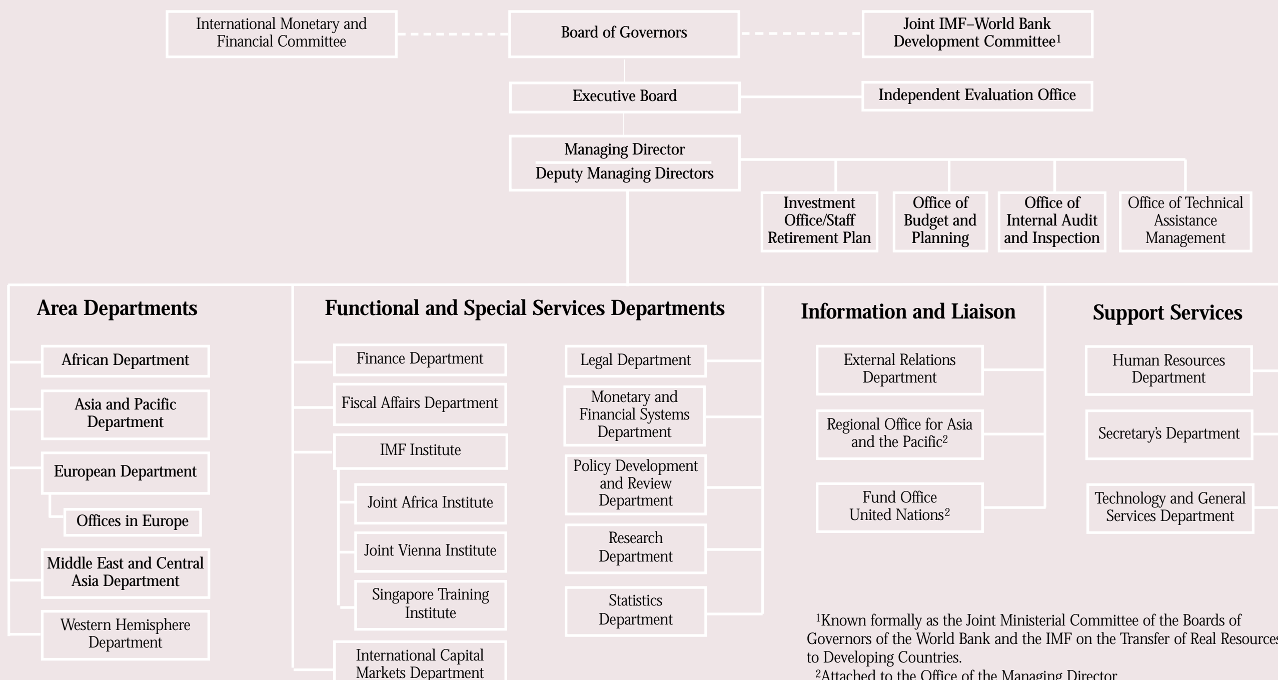
Special Drawing Rights or SDRs are an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their quotas. The SDR also serves as the unit of account of the IMF. Its value is based on a basket of key international currencies. U.S. dollar amounts are calculated at the rate of SDR 1 = $1.45776 (July 30, 2004) and are rounded.

Finding out more . . .

The best way to find out more about the IMF is to look at its website (*www.imf.org*). The fortnightly *IMF Survey* and the quarterly *Finance & Development* are also good sources of information about policies and research.

Critical assessments of IMF policies and procedures can be found on the website of the Independent Evaluation Office (*www.imf.org/external/np/ieo/index.htm*).

How the IMF is organized



[1]Known formally as the Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries.

[2]Attached to the Office of the Managing Director.

LEARNING THE LINGO

A quick guide to some key terms

Economists and the IMF use a specialized language. Here's a quick reference to some of the terms used in this publication and the page on which you will find them.

Concessional: A loan is concessional if its terms (defined by the interest on the loan and its maturity) are more favorable to the borrower than the terms of loans provided commercially. The IMF lends to low-income countries at a subsidized interest rate of ½ of 1 percent a year, with 5–10 year repayment periods (see page 22).

Conditionality: The policy conditions that countries have to meet in most cases when borrowing money from the IMF (see page 23).

Contagion: Refers to the spread of a financial crisis from one country to another—a bit like a contagious disease spreads among individuals (see page 16).

Facilities: Types of IMF loan available to members (see pages 24–25).

Governance: Encompasses all aspects of the way a country or institution is run, including its regulatory framework and its accountability (see page 18).

IMF surveillance: Literally, oversight: under its Articles of Agreement, the IMF is responsible for overseeing the international monetary system and for exercising firm surveillance over the exchange rate policies of members. Surveillance is one of the core activities of the IMF—tracking economic developments, both globally and in individual countries and letting policymakers know if things are going off course or if policies need to be corrected (see page 14).

Macroeconomics: Macro comes from the Greek word meaning large. Thus, macroeconomics is concerned with the functioning of an economy as a whole and with such variables as total wealth, money, income, unemployment, inflation, and exchange rates (the value of currencies vis-à-vis other currencies). In contrast, microeconomics is concerned with the behavior of individual economic units, such as households and firms and the determination of relative prices (see page 14).

Sustainability: The IMF promotes policies that are designed to lead to sustainable growth—that is, lasting growth that is not interrupted by, for example, "booms and busts." A country's debt is sustainable if it can be serviced and repaid without jeopardizing the health of the economy (see page 18).

Transparency: Refers to how open an institution is with the public. The more transparent an institution, the more it keeps the public informed about its activities and methods of operation (see page 18).

For further information, the IMF has a glossary of financial terms on its website, *www.imf.org.*

Cover shows Brazilian futures market traders in São Paulo. Financial globalization is one of 10 events that have shaped the IMF (see Page 5).